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**BEFORE THE MINNESOTA OFFICE OF ADMINISTRATIVE HEARINGS  
600 North Robert Street  
St. Paul, Minnesota 55101**

**FOR THE MINNESOTA PUBLIC UTILITIES COMMISSION  
121 7th Place East  
Suite 350  
St. Paul, Minnesota 55101-2147**

**MPUC Docket No. E-002/CI-13-754  
OAH Docket No. 48-2500-31139**

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*In the Matter of a Commission Investigation into Xcel Energy's Monticello Life Cycle  
Management/Extended Power Uprate Project and Request for Recovery of Cost Overruns*

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**PROPOSED FINDINGS OF FACT AND CONCLUSIONS OF LAW OF THE OFFICE OF  
THE ATTORNEY GENERAL-RESIDENTIAL UTILITIES AND ANTITRUST DIVISION**

**November 21, 2014**

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**STATE OF MINNESOTA  
OFFICE OF ADMINISTRATIVE HEARINGS  
FOR THE  
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into Xcel Energy’s Monticello Life Cycle  
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OF THE OFFICE OF THE ATTORNEY GENERAL**

This matter came for evidentiary hearing before Administrative Law Judge (“ALJ”) Steve Mihalchick on September 29, 2014 to October 1, 2014, at the offices of the Minnesota Public Utilities Commission in St. Paul, Minnesota.

Aakash Chandarana and Alison Archer, Xcel Energy Services Inc., 414 Nicollet Mall, Minneapolis, Minnesota 55401; Michael Krikava, Paul Hemming, and Elizabeth Brama, Briggs and Morgan, 2200 IDS Center, 80 South 8<sup>th</sup> Street, Minneapolis, Minnesota, 55402, appeared for and on behalf of Northern States Power Company (“Xcel” or the “Company”).

Ryan P. Barlow and Ian M. Dobson, Assistant Attorneys General, 445 Minnesota Street, Suite 1400, St. Paul, Minnesota 55101, appeared for and on behalf of the Office of the Attorney General, Residential Utilities and Antitrust Division (“OAG”).

Julia E. Anderson, Assistant Attorney General, 445 Minnesota Street, Suite 1800, St. Paul, Minnesota 55101, appeared for and on behalf of the Department of Commerce, Division of Energy Resources, Energy Regulation and Planning (“Department”).

Sarah Johnson Phillips, Attorney at Law, Stoel Rives LLP, 33 South Sixth Street, Suite 4200, Minneapolis, Minnesota, 55401, appeared for and on behalf of the Xcel Large Industrials group (“XLI”).

Robert Harding, Jerry Dasinger, and Jorge Alonso, 121 Seventh Place East, Suite 350, St. Paul, Minnesota 55101, attended the hearings on behalf of the Staff of the Public Utilities Commission (“Commission”).

**FINDINGS OF FACT**

**I. BACKGROUND**

1. The Monticello Nuclear Generating Plant (“Monticello” or “Monticello Plant”) is a nuclear reactor owned and operated by Xcel. Monticello, which was designed to generate 564

MW of electricity, came online in 1971 and was originally licensed to operate until 2010.<sup>1</sup> Monticello initially operated at 564 MW. But in 1998, Xcel conducted an Extended Power Uprate project (“EPU”) to increase the plant’s generating capacity from 564 MW to 600 MW.<sup>2</sup> During the course of the 1998 EPU, Xcel increased the capacity of the plant by using the “margins in the existing equipment to uprate the electronic output” of the plant.<sup>3</sup> Following the 1998 EPU, Xcel planned to operate the plant at 600 MWs until its license expired in 2010, and then expected to begin decommissioning.

2. In 2003, the legislature changed Minnesota law in a way that made it possible to extend the operation of nuclear power plants beyond the initial 40 year period.<sup>4</sup> Throughout 2004, Xcel began to consider whether it would be cost-effective to extend the life of Monticello and how to go about getting regulatory approval.<sup>5</sup> Xcel refers to the process of extending the life of the plant as the Life Cycle Management project (“LCM”). To accomplish the LCM, Xcel began several regulatory proceedings in parallel.

3. The first step in preparing the plant for further operation was to request authorization from the Commission to store spent nuclear fuel on-site so that the plant could continue to operate past its original lifetime. Xcel filed a Certificate of Need (“CON”) for the spent fuel storage in 2005,<sup>6</sup> in which the Company estimated that the LCM necessary to extend the life of the plant would cost \$135 million.<sup>7</sup> Xcel also needed regulatory approval from the Nuclear Regulatory Commission (“NRC”) in order to extend the operation of the Monticello Plant, so Xcel filed a license renewal application with the NRC on March 24, 2005.<sup>8</sup> The NRC approved the license renewal on November 8, 2006.<sup>9</sup>

4. In addition to the LCM, Xcel believed that it would be beneficial to increase the capacity of the Monticello Plant. In Xcel’s 2004 Resource Plan Docket, the Company informed the Commission that it may be possible to increase the capacity of the Monticello Plant and that upgrading the plant could help provide baseload generation that Xcel perceived would be necessary in the future. The Commission ordered Xcel to “file any required Commission review or approval of these upgrades by the end of [2006].”<sup>10</sup> The Commission later extended the deadline to December 2007,<sup>11</sup> and then to January 2008.<sup>12</sup> On February 14, 2008, Xcel filed a

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<sup>1</sup> Ex. 3, at 43 (O’Connor Direct).

<sup>2</sup> Ex. 305, at 3 (Jacobs Direct).

<sup>3</sup> Ex. 300, at 4 (Crisp Direct).

<sup>4</sup> Ex. 2, at 14 (Alders Direct)

<sup>5</sup> Ex. 12, at 19 (Sparby Rebuttal).

<sup>6</sup> Application, *In the Matter of the Application of Northern States Power Company for a Certificate of Need to Establish an Independent Spent Fuel Storage Installation at the Monticello Generating Plant*, Docket No. E-002/CN-05-123 (Jan. 18, 2006).

<sup>7</sup> Ex. 310, at CJS 2 (Attachments to Shaw Direct).

<sup>8</sup> Ex. 2, at 18 (Alders Direct).

<sup>9</sup> *Id.*

<sup>10</sup> Order Approving Resource Plan as Modified, Finding Compliance with Renewable Energy Objectives Statute, and Setting Reporting Requirements, Docket No. E-002/RP-04-1752, at 9 (July 28, 2006).

<sup>11</sup> Order Suspending Contested Case Proceeding, Delaying Filing Dates, And Advancing Date For Filing Next Resource Plan, October 22, 2007, Docket Nos. E002/RP-04-1752, E002/M-07-2, E002/CN-06-1518.

CON requesting permission to increase the generating capacity of the Monticello plant by 71 MW. In its initial filing, Xcel estimated that the cost of the new EPU would be \$133 million,<sup>13</sup> and on January 8, 2009 the Commission granted approval of the CON and directed Xcel to complete the uprate.<sup>14</sup>

5. In order to perform an EPU, however, Xcel also had to get regulatory approval from the NRC in the form of a license amendment.<sup>15</sup> Even though it had been unable to file with the Commission until 2008, Xcel filed a license amendment request for the EPU with the NRC on November 8, 2006.<sup>16</sup> Action on the license amendment request was delayed, however, because the Company had given the NRC contradictory information about its plans for the Monticello Plant. When it filed its license renewal request with the NRC, Xcel told the NRC that it was not considering any change in the generation capability of the facility and that the plant would be maintained at its then-current operating level throughout the entire extended licensing period.<sup>17</sup> But, contrary to the information it gave the NRC, Xcel had been conducting studies about the viability of an EPU since at least 2004.<sup>18</sup> Partly as a result of these conflicting statements, the NRC recommended that Xcel withdraw its EPU amendment request,<sup>19</sup> and Xcel was unable to file an updated request until November 5, 2008. After this delayed filing, Xcel did not receive approval for the NRC EPU license until December, 2013.<sup>20</sup>

6. Before Xcel had even obtained regulatory approval for the EPU, it executed contracts with General Electric in the fall of 2006 to “engineer, design, and procure the necessary components and modifications to implement” the Monticello project,<sup>21</sup> and with Day Zimmerman in late 2007 to “implement” the work planning and installation necessary to complete the Project.<sup>22</sup> When the work got underway, the on-site team at Monticello recommended completing the Project during the 2011 and 2013 nuclear refueling outages.<sup>23</sup> Xcel’s Board of Directors ignored the recommendation of the Company’s EPU Project Team and implemented an aggressive strategy to finish the project entirely during the 2009 and 2011 outages.<sup>24</sup>

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(Footnote Continued From Previous Page.)

<sup>12</sup> Proposed Schedule For Suspended Proceedings, December 14, 2007, Docket Nos. E002/RP-04-1752, E002/M-07-2, E002/CN-06-1518.

<sup>13</sup> Petition, *In the Matter of the Application of Northern States Power Company for a Certificate of Need for the Monticello Nuclear Generating Plant Extended Power Uprate*, Docket No. E-002/CN-08-185, at 1–6 (Feb. 14, 2008).

<sup>14</sup> Order Granting Certificate of Need and Accepting Environmental Assessment, *In the Matter of the Application of Northern States Power Company for a Certificate of Need for the Monticello Nuclear Generating Plant Extended Power Uprate*, Docket No. E-002/CN-08-185 (Jan. 8, 2009).

<sup>15</sup> The license amendment is different from the license renewal that Xcel received approval for in 2006.

<sup>16</sup> Ex. 3, at 51 (O’Connor).

<sup>17</sup> Ex. 300, at 13 (Crisp).

<sup>18</sup> *Id.*

<sup>19</sup> *Id.* at 14.

<sup>20</sup> Ex. 305, at 6 (Jacobs Direct).

<sup>21</sup> Ex. 3, at 46 (O’Connor Direct).

<sup>22</sup> *Id.* at 47.

<sup>23</sup> *See* Ex. 301, at 23–25 (Crisp Trade Secret Direct).

<sup>24</sup> *Id.*

7. During the outages, however, the Company discovered that its haphazard planning and design had failed to uncover the need for a series of significant modifications that were necessary to complete the Project. As a result, the Company had to delay some of the installation work until the 2013 outage, several years after the Project was supposed to be finished.<sup>25</sup>

8. That delay was significant enough by 2011 to require the Company to file a Notice of Changed Circumstances in the 2008 CON docket.<sup>26</sup> While the Company provided information about the scheduling change, it failed to mention that the project was running about \$180 million over budget.<sup>27</sup> Xcel did not provide the Commission with further information until its 2012 rate case, when it requested full recovery of the project costs.<sup>28</sup> The ALJ and the Commission, however, determined that only the LCM had been completed, while the EPU was not used and useful because the additional 71 MW were not operating.<sup>29</sup> The Commission also stated that it was concerned with the project's significant cost overruns, and opened this docket to "investigate whether the Company's handling of the LCM/EPU project was prudent, and whether the Company's request for recovery of the Monticello LCM/EPU cost overruns is reasonable."<sup>30</sup>

## II. PROCEDURAL HISTORY

9. The ALJ conducted a prehearing conferences at the offices of the Commission on January 27, 2014; a second prehearing conference was conducted by telephone on February 10, 2014.

10. The ALJ issued the first prehearing order on February 14, 2014. In the first prehearing order, the ALJ ordered that the direct testimony of the Department and the Consulting Engineer be filed by July 2, 2014; that petitions for intervention be filed by July 16, 2014; that rebuttal testimony be filed by August 26, 2014; that surrebuttal testimony be filed by September 19, 2014; and that the evidentiary hearing take place on September 29–October 3, 2014.<sup>31</sup>

11. The initial parties to the proceeding were Xcel and the Department.<sup>32</sup> Petitions to Intervene were also filed by the OAG and XLI. No party objected to any petition to intervene, and the ALJ granted the petitions of the OAG and XLI on February 14, 2014.

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<sup>25</sup> Ex. 3, at 76–77 (O'Connor Direct).

<sup>26</sup> Notice of Changed Circumstances, *In the Matter of the Application of Northern States Power Company for a Certificate of Need for the Monticello Nuclear Generating Plant Extended Power Uprate*, Docket No. E-002/CN-08-185 (Nov. 22, 2011).

<sup>27</sup> See Ex. 305, at 5 (Jacobs Direct).

<sup>28</sup> Findings of Fact, Conclusions, and Order, *In the Matter of the Application of Northern States Power Company for Authority to Increase Rates for Electric Service in the State of Minnesota*, Docket No. E-022/GR-12-961, at 17–22 (Sept. 3, 2013).

<sup>29</sup> *Id.*

<sup>30</sup> *Id.*

<sup>31</sup> *Id.* at 2-3.

<sup>32</sup> *Id.* at 2.

12. The parties submitted direct, rebuttal, and surrebuttal testimony consistent with the ALJ's first prehearing order. The parties also submitted initial and reply briefs on October 31, 2014 and November 21, 2014.

### III. LEGAL STANDARD

13. Xcel, like every other public utility in Minnesota, has the burden to prove that its rates are "just and reasonable."<sup>33</sup> Minnesota law unequivocally requires that the "burden of proof to show that the rate change is just and reasonable shall be upon the public utility."<sup>34</sup> In order to make entirely clear where the burden lies, Minnesota law also requires that any doubt as to the reasonableness of rates "should be resolved in favor of the consumer."<sup>35</sup> In this particular matter, the Commission stated in its Request for Proposals that the purpose of this investigation is to determine "whether Xcel Energy's handling of the [Monticello Project] was prudent and whether the Company's request for recovery of [Monticello Project] cost overruns is reasonable."<sup>36</sup> In order to satisfy its burden with regard to the Commission's investigation, Xcel must present evidence that proves it handled the Monticello Project prudently and that the costs it seeks to recover are reasonable.

14. To satisfy that burden, Xcel must do more than produce evidence showing that it acted prudently in making the initial decision to begin the Monticello Project. Xcel must also produce evidence showing that all of the subsequent decisions were prudent, and that the costs resulting from those decisions were reasonable; such a showing could be referred to as "implementation prudence."<sup>37</sup> Xcel witness Mr. Alders framed the issue of implementation prudence by asking, "As we encountered new circumstances along the way, did the company properly think through what its options were and to what extent did the company respond to those changed circumstances in a prudent fashion?"<sup>38</sup> The OAG submits that the Company has failed to carry its burden of proof on both of these questions.

15. It is not enough for Xcel to simply present the final costs of the project and request recovery: The Minnesota Supreme Court has stated that a utility "does not necessarily meet its burden of demonstrating that [its costs are] just and reasonable" by "merely showing that it has incurred, or may hypothetically incur, expenses."<sup>39</sup> Rather, to satisfy its burden, Xcel must produce affirmative evidence showing that the costs of the project were both prudent and reasonable, and that Xcel acted reasonably at every step of the way.

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<sup>33</sup> Minn. Stat. § 216B.03.

<sup>34</sup> Minn. Stat. § 216B.16, subd. 4.

<sup>35</sup> Minn. Stat. § 216B.03.

<sup>36</sup> Order Approving Investigation and Notice and Order for Hearing, Docket No. E-002/CI-13-754 (Dec. 18, 2013). The DOC published the final RFP in the State Register on November 25, 2013. 38 Minn. Reg. 740. It is available at <http://mn.gov/commerce/topics/request-for-proposals>.

<sup>37</sup> Tr. Evid. Hearing, Volume 2, at 13:9 (Sept. 30, 2014) (Alders).

<sup>38</sup> *Id.* at 13:8–13 (Alders).

<sup>39</sup> *In the Matter of the Petition of Northern States Power Company for Authority to Change its Schedule of Rates for Electric Service in Minnesota*, 416 N.W.2d 719, 723 (Minn. 1987).

16. It is also important to recognize that the burden of proof applied in utility proceedings before the Commission is different from traditional civil lawsuits. During the evidentiary hearing,<sup>40</sup> and in its currently pending rate case,<sup>41</sup> Xcel has attempted to manufacture legal authority to allow it to shift the burden of proof to the OAG, the Department, and other parties. But Xcel has raised this argument before, and it has been rejected before by both the Commission and the Minnesota Supreme Court.

17. In its 1985 rate case, Xcel<sup>42</sup> argued that once it produced evidence on a particular issue, it had created a “rebuttable presumption of reasonableness” that could only be overcome by competent evidence in rebuttal.”<sup>43</sup> As noted by the Minnesota Supreme Court, the Commission “rejected that contention” because “the company had at all times the burden of proving the proposed rate change.”<sup>44</sup> The Supreme Court agreed with the Commission, and stated:

If there ever existed in this state a presumption to be applied in ratemaking, enactment of Minn. Stat. § 216B.16, subd. 4 (1986) effectively removed any presumption, and placed on the petitioning utility the burden of proving the proposed rate is fair and reasonable . . . .<sup>45</sup>

In Minnesota, a utility does not create a presumption of recovery merely by producing evidence because enacted statutes clearly place the burden of proof on the utility, and *only* on the utility.<sup>46</sup>

18. Neither is a utility guaranteed recovery simply because public agencies or other interveners are unable to identify the precise costs that should be disallowed. For example, in Xcel’s 2008 rate case the OAG and the Department challenged Xcel’s method of allocating costs from its service company.<sup>47</sup> The public agencies determined that Xcel’s general allocator was inaccurate and unreasonable, and that its application had resulted in excess costs being allocated to Minnesota ratepayers.<sup>48</sup> The Department was unable to review each work order individually, so instead recommended a proxy reduction of one-half of the costs.<sup>49</sup> In response, Xcel argued that the public agencies had not met their burden because the Department had recommended a proxy adjustment to hundreds of work orders after it had identified problems in only two or three.<sup>50</sup> The Commission disagreed.<sup>51</sup>

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<sup>40</sup> Tr. Evid. Hearing, Volume 3, at 132:20-131:22 (Oct. 1, 2014) (Campbell).

<sup>41</sup> See Xcel Reply Brief, at 8–11, *In the Matter of the Application of Northern States Power Company for Authority to Increase Rates for Electric Service in Minnesota*, Docket No. 13-868.

<sup>42</sup> In 1985, the entity currently doing business as Xcel Energy was known only as Northern States Power.

<sup>43</sup> *In the Matter of the Petition of Northern States Power Company for Authority to Change its Schedule of Rates for Electric Service in Minnesota*, 416 N.W.2d 719, 725 (Minn. 1987).

<sup>44</sup> *Id.*

<sup>45</sup> *Id.* at 726.

<sup>46</sup> Minn. Stat. § 216B.16, subd. 4.

<sup>47</sup> See *In the Matter of the Application of Northern States Power Company d/b/a Xcel Energy for Authority to Increase Rates for Electric Service in Minnesota*, Docket No. E-002/GR-08-1065, at 18 (Oct. 23, 2009).

<sup>48</sup> *Id.* at 18–20.

<sup>49</sup> *Id.*

<sup>50</sup> *Id.* at 19.

<sup>51</sup> *Id.* at 20.



19. The Commission specifically rejected Xcel’s argument that the Department, or other public agencies, had to produce evidence after demonstrating that the Company’s request was unreasonable.<sup>52</sup> The Commission recognized that the Department and OAG had demonstrated a “significant incidence of over-allocation,” even though they had been unable to precisely determine the total amount.<sup>53</sup> Rather than allowing the Company to be shielded by the lack of precision, the Commission found that it was necessary to accept the Department’s proxy recommendation because “setting rates that overcharge ratepayers,” in the absence of detailed information, “[was] not an acceptable alternative.” The Commission further stated:

[U]ncertainty about how much the ratepayers are being overcharged in cost allocation does not trump the Commission’s duty to do something about it. And the burden of proof lies with the Company – under Minn. Stat. § 216B.03, any doubt as to the reasonableness of any rate must be resolved in favor of the consumer.

For that reason, the Commission cannot concur in the ALJ’s observation that “[t]he ALJ cannot conclude based on the record that the recommended disallowances are either necessary or more reasonable than the costs proposed by Xcel.” The OES is not obligated to prove that the disallowances are necessary or reasonable; Xcel is obligated to prove that it has adequately remedied the cost misallocations that the OES has demonstrated both exist and harm Minnesota ratepayers.<sup>54</sup>

The same burden of proof applies in every rate proceeding before the Commission. A utility is not protected by any presumption of recovery simply by filing a request to increase rates. In order to recover any costs, the utility must produce sufficient evidence to prove that the rates it has requested are just and reasonable. If the utility fails to do so, then the costs must be disallowed; equally, if a public agency or other intervener demonstrates that costs are unreasonable or imprudent, then they must be disallowed as well.

20. Xcel has failed in both respects in this case. The evidence produced by Xcel in this matter is not sufficient to demonstrate that the Company handled the Monticello Project prudently or that the costs of the Project were reasonable; furthermore, the evidence that is in the record demonstrates that a significant amount of the cost overruns for the Project were caused by Xcel’s poor management and should not be recovered from ratepayers.

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<sup>52</sup> *Id.* at 20–21.

<sup>53</sup> *Id.* at 20.

<sup>54</sup> *Id.* at 21.

## IV. DISPUTED ISSUES

### A. The Testimony Provided by Xcel's Witnesses is Not Reliable.

21. As a threshold issue, before considering whether Xcel has made a sufficient evidentiary showing, it is worth discussing the reliability of Xcel's witnesses. Each of the witnesses that Xcel presented to establish its prudence was flawed in some way, and the combination of those flaws indicates that Xcel's witnesses, as a group, did not provide reliable testimony in this matter.

22. Initially, Mr. Sparby's testimony should be considered in light of Mr. Sparby's direct financial interest in the outcome of this case. While Mr. Sparby would not directly admit that he is paid a bonus,<sup>55</sup> he did agree that some portion of his compensation is tied directly to the performance of Xcel Energy. In fact, Xcel's publicly available SEC filings indicate that Xcel awarded Mr. Sparby more than \$300,000 in "annual incentive pay,"<sup>56</sup> which is intended to "motivate achievement of Xcel Energy's short-term operational and financial goals."<sup>57</sup> Mr. Sparby agreed during the evidentiary hearing that his compensation package from Xcel may be affected by the outcome of this case.<sup>58</sup>

23. In addition to the incentive pay Mr. Sparby receives from his "executive compensation program," he owns more than 120,000 shares of Xcel stock, and likely a significant number of unexercised options.<sup>59</sup> In fact, SEC filings indicate that half of Mr. Sparby's annual compensation, like that of other Xcel executives, is made up of performance shares and units of common stock.<sup>60</sup> As Mr. Sparby noted during the evidentiary hearing, "a significant disallowance," like the ones recommended by the OAG and the Department, "could affect Xcel Energy's financial performance," and, therefore, Mr. Sparby's personal finances.<sup>61</sup> With all due respect to Mr. Sparby, his financial interest in the outcome of this matter indicates that his testimony may be biased.

24. On top of Mr. Sparby's financial interest in the outcome of this matter, the testimony that he provided is of even less evidentiary value given the fact that he was not directly responsible for or involved in the Monticello Project for a significant period of time during implementation. As Mr. O'Connor noted, the "majority [of the work] was done during the refueling outages" in 2009, 2011 and 2013.<sup>62</sup> But from 2009 to 2011, Mr. Sparby was the Chief Financial Officer of

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<sup>55</sup> When asked if he was "paid a bonus," Mr. Sparby responded that he regarded his executive compensation program as "something different than a bonus," even though it is directly tied to the performance of the Company and is called "incentive pay." Tr. Evid. Hearing, Volume 1, at 22:21-23:6 (Sept. 29, 2014) (Sparby).

<sup>56</sup> Mr. Sparby did not clarify why he refused to agree that his incentive pay was a bonus.

<sup>57</sup> This information is drawn from Xcel Energy's most recent proxy filing which is publicly available on Xcel's website. The relevant portions of the proxy statement have been attached as Attachment A.

<sup>58</sup> Tr. Evid. Hearing, Volume 1, at 24:7 (Sept. 29, 2014) (Sparby).

<sup>59</sup> Attachment A, at 31; *see also* Tr. Evid. Hearing, Volume 1, at 20:22-25 (Sept. 29, 2014) (Sparby).

<sup>60</sup> Attachment A, at 37.

<sup>61</sup> Tr. Evid. Hearing, Volume 1, at 24:2-3 (Sept. 29, 2014) (Sparby).

<sup>62</sup> Tr. Evid. Hearing, Volume 1, at 109:11-16 (Sept. 29, 2014) (O'Connor).

the parent company Xcel Energy.<sup>63</sup> As CFO, Mr. Sparby was “responsible for the financial group, the auditing group, the risk function, [and] forecasting” for Xcel Energy’s operations in Colorado, New Mexico, Texas, North Dakota, South Dakota, Wisconsin, and Michigan, in addition to its Minnesota operations.<sup>64</sup> In other words, while he was CFO, Mr. Sparby was not directly managing or overseeing the Monticello Project. Because he was not directly involved in the implementation of the project while he was the CFO of the parent company, Mr. Sparby’s testimony about the Company’s prudence or the reasonableness of the costs is of only limited value.

25. Similar to Mr. Sparby, Mr. O’Connor presented testimony in this matter as the Chief Nuclear Officer.<sup>65</sup> But Mr. O’Connor did not join Xcel Energy until 2007, well into the planning process for the Monticello Project.<sup>66</sup> And Mr. O’Connor did not become the Chief Nuclear Officer until recently.<sup>67</sup> Before he became Chief Nuclear Officer, Mr. O’Connor may have been involved in the Monticello Project but was not the ultimate decision maker; instead, that responsibility rested with the Company’s then-Chief Nuclear Officer, Mr. Koehl.<sup>68</sup> As the Chief Nuclear Officer during the period when most of the planning and implementation work was done for the Monticello project, Mr. Koehl, rather than Mr. O’Connor, would have been the person best suited to provide testimony about whether the project was conducted prudently. Unfortunately, though, Mr. Koehl did not provide testimony in this matter and Xcel did not make him available to the Commission or other parties.

26. Xcel’s other witnesses are also of limited value in determining whether Monticello Project was conducted prudently. While Mr. Alders provided testimony about the forecasting and modeling done to support the Monticello Project, he did not actually perform the modeling himself; rather, he was available to “address the questions” of the people who actually did the modeling.<sup>69</sup> Mr. Weatherby did not provide any testimony about the prudence of the Project; instead, “the focus of [Mr. Weatherby’s] testimony was on the costs [Xcel] actually recorded.”<sup>70</sup> Mr. Stall and Mr. Sieracki were consultants hired by Xcel to provide testimony beneficial to the company.<sup>71</sup> In fact, Mr. Stall’s most recent experience in the nuclear field was with Turkey Point and St. Lucie power plants in Florida,<sup>72</sup> which are currently about \$2 billion dollars over-budget for their own extended power upgrades.<sup>73</sup> Each of Xcel’s witnesses is flawed, and as a group their testimony is unreliable.

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<sup>63</sup> See Tr. Evid. Hearing, Volume 1, at 17–19 (Sept. 29, 2014) (Sparby).

<sup>64</sup> *Id.* at 19:19–22 (Sparby).

<sup>65</sup> See Ex. 3, at 1 (O’Connor Direct).

<sup>66</sup> *Id.*

<sup>67</sup> Tr. Evid. Hearing, Volume 2, at 20–21 (Sept. 30, 2014) (Alders).

<sup>68</sup> *Id.* at 21.

<sup>69</sup> Tr. Evid. Hearing, Volume 2, at 19:24–20:7 (Sept. 30, 2014) (Alders).

<sup>70</sup> Tr. Evid. Hearing, Volume 2, at 48:1–16 (Sept. 30, 2014) (Weatherby).

<sup>71</sup> See Ex. 4, at 1 (Stall Direct); Ex. 11, at 1 (Sieracki Rebuttal).

<sup>72</sup> Ex. 4, at 1–2 (Stall Direct).

<sup>73</sup> In 2007, Mr. Stall’s previous employer estimated that the Turkey Point and St. Lucie EPU project would cost approximately \$1.4 billion, but by 2013 the estimated costs had grown to approximately \$3.4 billion, for a total cost increase of \$2 billion dollars. Prehearing Order, *In re: Nuclear Cost Recovery Clause*, Docket No. 130009-EI, 2013 WL 3866104, at \*10 (Fla. Pub. Svc. Comm. July 23, 2013).

**B. Xcel Has Not Proven That the Costs of the Monticello Project Are Reasonable and Prudent.**

27. Xcel has produced a wealth of documents and testimony in this matter, but the volume of information produced does not make up for the fact that Xcel has not demonstrated that it acted reasonably based on what it knew or should have known, or that the final costs for the Monticello Project were incurred reasonably. Xcel introduced a mountain of information to explain why it decided to undertake the Monticello Project initially, how it discovered significant sub-projects that it did not initially anticipate, and why it was necessary to complete those projects in order to finish the Project. But in focusing on the decisions it made to begin and continue the project, Xcel has failed to address whether it acted prudently and incurred reasonable costs in actually doing the work once the decision to attempt new scope modifications was made.

28. The Company had ample opportunities both in pre-filed testimony and during the evidentiary hearing to remedy this lack of production. During the evidentiary hearing, Commission Staff repeatedly asked Xcel witnesses where in the record the Company had produced “any written documentation . . . beyond the resource planning documents that refer to the decision-making process undertaken by Xcel in changing the work scope from the original EPU plan.”<sup>74</sup> Commission Staff also asked whether “when the company was looking at any particular item, there’s a discussion of the various options it considered and why it made the decision to proceed as it did as opposed to just a general recap of what the company did?”<sup>75</sup>

29. Xcel witnesses James Alders and David Sparby told the Staff that they should ask Mr. Tim O’Connor about those issues, or review Mr. O’Connor’s testimony.<sup>76</sup> But when he was on the stand, Mr. O’Connor told the Staff that he was not sure where that information could be found, and they should ask Xcel witness Mr. Scott Weatherby. In a continuing theme, when Mr. Weatherby was asked where the information could be found, he told the Staff to ask Mr. O’Connor.<sup>77</sup>

30. With the assistance of his counsel, Mr. O’Connor claimed on redirect that some portions of his direct testimony provided the information that Staff was looking for.<sup>78</sup> But a review of the pre-filed testimony reveals that it simply does not contain the information Staff was seeking. In the pages referenced, Mr. O’Connor provides a description of ten major scope modifications that led to “95 percent of the total Program costs.”<sup>79</sup> But for the vast majority of the modifications, Mr. O’Connor does not provide discussion of the Company’s decision-making process once it decided to undertake the modifications, or of what alternatives it considered.

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<sup>74</sup> Tr. Evid. Hearing, Volume 2, at 16:20–17:20 (Sept. 30, 2014) (Alders).

<sup>75</sup> *Id.* at 16:20–17:20 (Alders); *see also* Tr. Evid. Hearing, Volume 1, at 63–66 (Sept. 29, 2014) (Sparby); Tr. Evid. Hearing, Volume 1, at 139–40 (Sept. 30, 2014) (O’Connor).

<sup>76</sup> Tr. Evid. Hearing, Volume 2, at 17 (Sept. 30, 2014) (Alders); Tr. Evid. Hearing, Volume 1, at 65 (Sept. 29, 2014) (Sparby).

<sup>77</sup> Tr. Evid. Hearing, Volume 2, at 48 (Sept. 30, 2014) (Weatherby).

<sup>78</sup> Tr. Evid. Hearing, Volume 1, at 143 (Sept. 29, 2014) (O’Connor).

<sup>79</sup> Ex. 3, at 93 (O’Connor Direct).

31. For each of the modifications, Mr. O'Connor provides a description of what the modification was, how the plan changed from the initial scope, why the modification was necessary, and how much the modification cost; essentially, Mr. O'Connor simply summarizes what the project was for, and how much it cost.<sup>80</sup> The only exception, as noted by Staff, was Mr. O'Connor's discussion of why the Company decided to install a 13.8 kV electric distribution system instead of a 4 kV electric distribution system.<sup>81</sup> For the rest of the major modifications, Mr. O'Connor did not provide a discussion of the Company's decision-making process for increasing the scope of the Project or what alternatives the Company considered once that decision was made. Similarly, in his rebuttal testimony Mr. O'Connor devoted several pages to establish that the scope changes were "necessary," but in doing so largely misses the point.<sup>82</sup> Even assuming Mr. O'Connor is correct and all of the scope changes were "necessary," Xcel still bears the burden of proving that it acted prudently in implementing the scope changes,<sup>83</sup> and that the costs of doing so were reasonable.

32. The testimony that Mr. O'Connor provided when he was recalled during the evidentiary hearing indicates that the Company *could* have provided such information if it had wanted to do so. In response to a series of questions asked by the ALJ, Xcel recalled Mr. O'Connor on the second day of the evidentiary hearing.<sup>84</sup> The ALJ asked Mr. O'Connor, "My question is somewhere in the process and apparently in your testimony, it didn't jump out to me as to where – what is the process where flags jumped up and the alternatives were discussed?"

. . . How do I and the Commission know that you're keeping costs down . . . for the individual items?"<sup>85</sup>

33. At this point, Mr. O'Connor described the process the Company used for determining how to complete the reactor feedwater subproject. According to Mr. O'Connor, when the project started showing cost variances, the Company assembled "revised estimates" and considered "what options were available for us to do something different."<sup>86</sup> Mr. O'Connor provided an example of how the Company challenged the original design made by General Electric for the piping in the reactor feedwater system.<sup>87</sup> Mr. O'Connor stated that Xcel's "internal governance counsels" asked General Electric whether there was an alternative way to do the piping that could be smaller or cost less.<sup>88</sup> When General Electric told Xcel that its plan was the most efficient option, Xcel went to a third-party architect to find out if there were better alternatives.<sup>89</sup>

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<sup>80</sup> *See id.* at 93–145.

<sup>81</sup> *Id.* at 131–32. In one other instance, Mr. O'Connor's direct indicates that it will discuss alternatives considered for the condensate demineralizer system, but then proceeds to discuss only whether the Company could have delayed the installation of the system rather than providing a discussion of alternatives. *See id.* at 111.

<sup>82</sup> Ex. 9, at 57–60 (O'Connor Rebuttal).

<sup>83</sup> Xcel witness Mr. Alders described this as "implementation prudence." Tr. Evid. Hearing, Volume 2, at 13:9 (Sept. 30, 2014) (Alders).

<sup>84</sup> Tr. Evid. Hearing, Volume 2, at 47–49 (Sept. 30, 2014) (Weatherby).

<sup>85</sup> Tr. Evid. Hearing, Volume 2, at 54:4–12 (Sept. 30, 2014) (O'Connor).

<sup>86</sup> Tr. Evid. Hearing, Volume 2, at 56 (Sept. 30, 2014) (O'Connor).

<sup>87</sup> *Id.* at 57.

<sup>88</sup> *Id.*

<sup>89</sup> *Id.* at 57–58.

34. Even with the information that Mr. O'Connor provided, however, the Company has still not fully explained the process for the reactor feedwater piping, much less the entire reactor feedwater subproject. While Mr. O'Connor provided a lot of information about the piping during the evidentiary hearing, Xcel never described what the options for the piping were, how much they cost, which options the Company selected, or how it made that decision. And Xcel has not produced any documents related to either the issues that Mr. O'Connor discussed or the issues that were not discussed.

35. Furthermore, the fact that Mr. O'Connor was able to provide this information about a single aspect of one subproject only highlights the fact that the Company *could* have produced similar information about the other subprojects, but chose not to. For example, Mr. O'Connor referred to Xcel's "internal governance counsels," but other than this brief reference the Company has never explained who the internal governance counsels are, what they do, or why it is reasonable to rely on their decisions to ensure that subprojects were completed in a prudent fashion. As a further example, when Mr. O'Connor was recalled he provided information about the process for considering alternatives for the reactor feedwater piping; but he did not provide information about alternatives for the reactor feedwater pumps, or for the condensate demineralizer, or for how the company ran cabling for the 13.8 kV electric distribution system, or the turbines that were replaced, or for any of the significant changes that were made during the Monticello subproject. It appears, based on the amount of information contained in Mr. O'Connor's off-the-cuff description of the process for the reactor feedwater piping, that Xcel chose not to provide a significant amount of information that would have been helpful in analyzing whether Xcel acted prudently in implementing the scope modifications.

36. Mr. O'Connor's statement during the evidentiary hearing succinctly captures the problem with Xcel's case. When Staff asked Mr. O'Connor where in the record the Commission could find information about Xcel's decision-making process, Mr. O'Connor stated, "I can assure you that – I think what you're asking is did we do, you know, cost benefit evaluations and look at alternatives, and the answer is absolutely."<sup>90</sup> Rather than producing any evidence of its processes or what alternatives it considered, Xcel states simply that it "absolutely" considered cost benefit evaluations, considered alternatives, and has some kind of process in place. But by failing to produce any evidence to support its claims, Xcel essentially asks the ALJ, the Commission, and other parties, to take Xcel's claim that it acted prudently on faith. In doing so, Xcel has clearly failed to meet its burden to prove that the costs of the Monticello Project were reasonable and incurred prudently.

**C. The Record Demonstrates that a Significant Portion of the Cost Overruns Were Caused by Xcel's Poor Management of the Monticello Project.**

37. The record also shows that many of Xcel's decisions in planning, designing, and implementing the Monticello project were endemic of poor project management. As described by Department witness Mr. Crisp:

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<sup>90</sup> Tr. Evid. Hearing, Volume 1, at 141 (Sept. 29, 2014) (O'Connor).

As with every major project and most minor projects the overall execution of the project is directly attributed to thorough and exhaustive project management. Success is defined by the schedule, cost, and operational benefits the project is able to accrue to the plant and to the ratepayers. Each attribute of overall project management, including proper staffing, scope definition, scheduling, design, procurement, and construction is linked together to form a synergistic approach to the overall execution of the project. A project cannot expect to be completely successful if any one or more of the attributes fails to meet its goal.<sup>91</sup>

Xcel failed to follow these basic steps in a multitude of ways; the Company decided to fast-track the project, and to proceed with design and construction in parallel; the Company failed to support these decisions properly defining the scope of the Project; the Company also failed to properly manage its contractors. Each of these decisions independently contributed to cost overruns; but they also exacerbated the other, related problems. These cumulative failures led to a final cost for the Monticello Project that exceeded the Company's initial estimate by nearly 135 percent. Those portions of the \$428.1 million in cost overruns that were caused by Xcel's poor management were not incurred prudently, and Xcel's request to recover those costs is unreasonable and should be denied.

#### **1. Xcel's Decision to Proceed on a "Fast Track" Contributed to Increased Costs.**

38. In planning the Monticello project, Xcel considered two possible schedules for the work: the Company could do the work during the 2011 and 2013 outages, or the Company could move quickly and try to do the work during the 2009 and 2011 outages.<sup>92</sup> Xcel's EPU Project Team recommended installing the EPU during the 2011 and 2013 refueling outages, but the Board ignored their recommendation.<sup>93</sup> Instead, the Board decided to order a schedule that required the project to be completed during the 2009 and 2001 outages.<sup>94</sup> As a result, "all work activities [were] 'fast track' with little ability to meet outage milestones."<sup>95</sup> Because the work was on a "fast track," the planning for the project "never caught up to work load."<sup>96</sup> As a result, the employees actually doing the work never had the time to plan appropriately, which led to increased costs.

39. Xcel witness Mr. Sparby admits that the fast track schedule was "aggressive."<sup>97</sup> Mr. Sparby attests that the Company's fast track schedule was necessary because the Company had

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<sup>91</sup> Ex. 300, at 5 (Crisp Direct).

<sup>92</sup> Ex. 12, at 14:20–15:15 (Sparby Rebuttal).

<sup>93</sup> Ex. 300, MWC-2, at 3 (Crisp Direct).

<sup>94</sup> *Id.*

<sup>95</sup> *Id.*

<sup>96</sup> *Id.*

<sup>97</sup> Ex. 12, at 15 (Sparby Direct).

been ordered to meet customer baseload requirements in its 2004 Resource Plan.<sup>98</sup> But Mr. Sparby also acknowledges that the Company did not have “ample time to pursue and implement” the project.<sup>99</sup> Mr. Sparby fails to recognize, perhaps because he was intimately involved in making the decision to begin the Project, that the reason the Company did not have ample time to pursue and implement the Project was that the Board disregarded the recommendation of Xcel’s EPU Project Team and pushed to complete the project on an “aggressive” schedule. As noted by Department witness Mr. Crisp, “the expedited approach caused delays and budget increases that could have been avoided.”<sup>100</sup> Mr. Crisp’s conclusion is supported by Xcel’s internal documents, which recognized that the fast track schedule contributed to the Project’s significant cost overruns.<sup>101</sup>

40. The Board’s decision to proceed on an expedited, fast track schedule was not reasonable. If the Company’s employees and contractors had been able to spend the time to effectively scope out the project and do design work, it is likely that a significant portion of the cost overruns could have been avoided. Instead, the Board pushed to have the Project completed as fast as possible in the hopes that the Company would be able to maximize its profits from the Monticello Plant.<sup>102</sup> As a result, the Project is hundreds of millions of dollars over budget and years late. In deciding to fast track the Project, the Board took unacceptable risks with the project at the expense of ratepayers, as it is ratepayers, rather than the Board, who are now being asked to pay for the cost overruns. The Project would have cost less if it had not been conducted on a fast track schedule.<sup>103</sup> If Xcel is permitted to recover all of the cost overruns in this case, Xcel’s Board, and the directors of other Minnesota utilities, will continue to take unacceptable risks with the assumption that ratepayers will be required to bear the costs of any mistakes on the part of the Company. The Board’s decision was not prudent because it led to increased Project costs, and it would not be reasonable for Xcel to recover those costs from ratepayers.

## **2. Xcel’s Decision to Design and Build in Parallel Led to Increased Costs.**

41. Especially when considered in light of its decision to proceed on an “aggressive,”<sup>104</sup> fast track schedule, Xcel’s decision to do design and construction work in parallel was not prudent. Doing design and construction at the same time, rather than completing a thorough design before proceeding to construction, led to increased costs for the Project.

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<sup>98</sup> *Id.* at 24.

<sup>99</sup> *Id.* at 21.

<sup>100</sup> Ex. 300, at 29:14–16 (Crisp Direct).

<sup>101</sup> *Id.* MWC-2, at 3.

<sup>102</sup> Because the Plant can only operate until its license expires, its profitable life is a finite period. If the Project had been completed in 2011, the Company could have enjoyed the financial benefits of the Project for 19 years based on the end of the license in 2030. If the schedule had planned for an in-service date in 2013, the costs of the project may have been lower but Xcel would only enjoy the financial benefits of the Project for 17 years.

<sup>103</sup> Tr. Evid. Hearing, Volume 3, at 61:12–15 (Oct. 1, 2014) (Crisp).

<sup>104</sup> Ex. 12, at 15 (Sparby Direct).



42. While some construction projects can be completed effectively by doing design work and construction at the same time, “the most successful projects proceed from engineering to procurement to construction.”<sup>105</sup> One reason that it is better to design, and then build, is that “it is likely some construction and engineering work [will be] duplicated or made unnecessary by later changes in scope and design.”<sup>106</sup> This concern was borne out by the Company’s experience with the Monticello Project: the Company acknowledged that it had to “modify [its] construction and design plans on an expedited basis to maintain the outage schedule.”<sup>107</sup> The Company also acknowledged that the “emergent work” resulted in increased installation costs, although the Company did not bother to track the costs in any way.<sup>108</sup> Completing all of the design work first would have avoided these problems and led to a “more accurate cost estimate and a better managed project.”<sup>109</sup>

43. A reasonable utility would have known that the decision to design and build in parallel could lead to increased costs that could have been avoided by a more measured approach. Department witness Dr. Jacobs testified that Xcel should have known that a parallel design/build approach would lead to problems because “performing project design in parallel with procurement and construction has been problematic in EPU projects” for other utilities around the country.”<sup>110</sup> Additionally, Xcel’s own witnesses acknowledge that the Company’s decision to design and build in parallel led to increased costs. Xcel witness Mr. O’Connor testified that “the nature of a parallel path of design and construction results in the need to adjust more frequently to changed conditions than under a more linear construction sequence.”<sup>111</sup> Mr. O’Connor also noted that the Company had to proceed with design and construction in parallel in order to meet the Board’s target of completing the Project by 2011.<sup>112</sup> If the Company had proceeded at a more reasoned pace, and completed its design before beginning construction, the Project could have been completed with less cost overrun.

44. The challenges caused by the Company’s decision to design and build in parallel were made worse by the Company’s failure to produce as-built drawings of the Monticello plant. Xcel’s consultant Mr. Stall noted that the drawings of the Monticello plant that were used to perform the design work “did not completely match the actual as-found conditions.”<sup>113</sup> Mr. Stall discovered “many instances where field design changes were required as a result of drawing discrepancies.”<sup>114</sup> For example, the Company discovered during the 2009 outage that the “as-built designs for the feedwater heater piping were incorrect.”<sup>115</sup> As a result, the Company had to do design work during the outage, rather than preparing for it by doing thorough design

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<sup>105</sup> Ex. 305, at 17 (Jacobs Direct).

<sup>106</sup> Ex. 200, at 19 (Lindell Rebuttal).

<sup>107</sup> Ex. 3, at 39:22–23 (O’Connor Direct).

<sup>108</sup> *Id.* at 39:22–26.

<sup>109</sup> *Id.*

<sup>110</sup> *Id.*

<sup>111</sup> Ex. 3, at 111 (O’Connor Direct).

<sup>112</sup> *Id.* at 64.

<sup>113</sup> Ex. 4, at 62:11 (Stall Direct).

<sup>114</sup> *Id.* 62:12–14.

<sup>115</sup> Ex. 3, at 39:14–16 (O’Connor Direct).

work beforehand. If the Company had used accurate as-built drawings, the rush to do design work during the outage could have been avoided. The as-built drawings were essential in order to properly design the work that would be done in the plant, but the Company either did not have them or had failed to ensure they were kept accurately.

45. Mr. Crisp described how important as-built drawings are for power plant upgrades:

As-built drawings, summaries, conditions, procedures and policies are the life blood of an operating power plant . . . particularly plants that have been in operation for a number of years such as Monticello. Over the years in the due course of normal operation and maintenance and capital initiatives, “things” change; new cabling, wiring, updated instrument and controls, old equipment is removed and new equipment is added. If “as-builts” are not maintain[ed] in an updated conditions, everyone in the Plant runs the risk of making a serious mistake while carrying out normal everyday operational functions.<sup>116</sup>

Mr. Crisp noted that he found it very unusual that the Company did not have as-built designs of the Plant, since “the storage and maintenance of as-built drawings is a critical process” throughout the industry.<sup>117</sup>

46. It is even more unusual that the Company did not have as-built designs because it performed a similar EPU in 1998; the NRC classified both the 1998 power uprate and the current power uprate as an “extended” power uprate.<sup>118</sup> Despite the fact that the NRC classified it as an “extended” power uprate, Mr. O’Connor prefers to call the 1998 uprate a “rerate.”<sup>119</sup> Mr. O’Connor’s use of non-standard vocabulary should not distract from the fact that Xcel conducted a full “extended” power uprate at the Monticello Plant in 1998, and that experience should have both informed the Company’s planning and caused the Company to create as-built designs that could have been used in preparing designs for the current EPU. Without as-built drawings to inform the design of the work, Xcel’s employees regularly had to deviate from the design. This uncertainty led to increased costs for the project overall and made Xcel’s decision to design and build in parallel even more costly.

47. Xcel attempted to quantify the costs of these design inefficiencies by reviewing payments for design and abandoned work. Xcel first examined whether it could have avoided “field

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<sup>116</sup> Ex. 303, at 15 (Crisp Surrebuttal).

<sup>117</sup> *Id.*

<sup>118</sup> NRC Backgrounder on Power Uprates for Nuclear Plants, Ex. 410. Mr. O’Connor’s use of non-standard vocabulary should not distract from the fact that Xcel conducted a full “extended” power uprate at the Monticello Plant in 1998, and that experience should have both informed the Company’s planning and caused the Company to create as-built designs that could have been used in this plant.

<sup>119</sup> Tr. Evid. Hearing, Volume 1, at 116–117 (Sept. 29, 2014) (O’Connor).

changes” if it had done better design and scoping work.<sup>120</sup> The total cost of the field changes was between \$25 and \$30 million.<sup>121</sup> If Xcel had been able to prepare more accurate designs, some expenses caused by these field changes could have been avoided.<sup>122</sup> Mr. O’Connor believes that the Company could only have achieved “nominal” savings of only \$1 million, but does not provide *any* analysis for that conclusion other than his personal opinion.<sup>123</sup> Given that Mr. O’Connor did not explain the basis for his conclusion, it appears likely that some additional savings could have been achieved had the Company acted with reasonable prudence in preparing its designs.

48. Xcel also attempted to measure duplicative design costs. Xcel determined that it paid at least \$13 million for subsequent design work that was part of the original scope contract with GE.<sup>124</sup> Mr. O’Connor claims that the company was “exercising good judgment” in paying \$13 million for work that was duplicative, but that claim is absurd. The Company paid at least \$13 million for design work that was duplicative, and those expenses were imprudently incurred.<sup>125</sup>

49. Finally, Xcel attempted to measure costs related to abandoned subprojects. The Company determined that it spent \$11 million for projects that were ultimately not completed.<sup>126</sup> If the company had acted reasonably in preparing its designs, it is likely that some of these expenses could have been avoided.

50. The Company measured \$25 to \$30 million in expenses for field changes; \$13 million for duplicative design; and \$11 million for abandoned work. If the Company had acted reasonably in preparing its designs, some portion of these costs could have been avoided. To the extent that Xcel’s decision to proceed with poor designs led to avoidable costs, Xcel acted imprudently and any resulting costs should not be recovered from ratepayers.

### **3. Xcel’s Initial Scoping of the Monticello Project Was Inadequate.**

51. When Xcel filed the CON for the Monticello EPU, the Company outlined all of the major modifications it believed would be necessary to finish the project.<sup>127</sup> In that filing, Xcel told the Commission that it had “comprehensively evaluated the effects of the extended power uprate at Monticello,”<sup>128</sup> and that only “smaller scope modifications [would] be identified during the detailed engineering phase of the project.”<sup>129</sup> Unfortunately for the Company, and for ratepayers, this has not been the case.

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<sup>120</sup> Ex. 9, at 77 (O’Connor Rebuttal).

<sup>121</sup> *Id.*

<sup>122</sup> *Id.* at 77–78.

<sup>123</sup> *Id.*

<sup>124</sup> *Id.* at 79.

<sup>125</sup> To the extent that the Company recovers any of those expenses through settlements or claims made against contractors, the Company has agreed that the recovery will be used to offset the costs of the Project. *Id.*

<sup>126</sup> *Id.* at 80.

<sup>127</sup> Petition, *In the Matter of the Application of Northern States Power Company for a Certificate of Need for the Monticello Nuclear Generating Plant Extended Power Uprate*, Docket No. E-002/CN-08-185, at 3-13 (Feb. 14, 2008).

<sup>128</sup> *Id.* at 3-16.

<sup>129</sup> *Id.* at 3-13.

52. After Xcel began construction for the Monticello Project, the Company discovered that it needed to make “significant design modifications to [its] high-level conceptual designs” used in the CON proceeding.<sup>130</sup> After initial design work was completed, the Company “substantially expanded” the scope of four major modifications.<sup>131</sup> The four major modifications included the feedwater heaters, the reactor feed pumps and motors, the condensate demineralizer, and the 13.8 kV electric distribution system.<sup>132</sup> While the Company had initially estimated that the total cost of these modifications would be \$103.7 million, by the time the Company had finished installing them the costs had ballooned to \$406.4 million.<sup>133</sup> The cost overrun for these four projects alone makes up approximately 70 percent of the total cost overruns.

53. This incredible cost escalation is representative of Xcel’s failure to properly scope the project. As noted by Mr. Crisp, “In the case of Monticello, a fully functioning and operating nuclear plant, it is . . . critical to establish the scope in great detail. Failure to establish the scope at the outset all but guarantees schedule delays and cost overruns.”<sup>134</sup> According to Mr. Crisp,

[B]efore any design is initiated, a fully integrated team representing operations and designers must be assembled for the purpose of determining the existing conditions of plant equipment, whether the existing equipment has adequate capacity to be used in the future plans or whether the existing equipment does not have the remaining life or capacity to work within the new scheme.

At this point in the scoping process the goals of the project must be specifically identified in order for the design team to begin the process of establishing the requirements for new and replacement equipment.

In a parallel [design and build] effort, the design team along with the plant operational team must be physically evaluating the logistics required to dismantle any retired existing equipment and remove those components from their specific installation sites within the plant while determining the physical size and installation requirements of the new equipment.<sup>135</sup>

Unfortunately, Xcel did not take these steps to ensure that costs would be controlled. Instead, Xcel began the project on the basis of a “preliminary level of detail” that “failed to capture the true costs necessary to implement the overall Program.”<sup>136</sup> Xcel’s decision to proceed without a

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<sup>130</sup> Ex. 3, at 4:13–15 (O’Connor Direct).

<sup>131</sup> *Id.* at 32:9–11.

<sup>132</sup> *Id.*

<sup>133</sup> *Id.* at 5.

<sup>134</sup> Ex. 300, at 6–7 (Crisp Direct).

<sup>135</sup> Ex. 300 at, 7:14–8:3 (Crisp Direct).

<sup>136</sup> Ex. 3, at 30:6–7, 30:20–22 (O’Connor Direct).

fully defined scope for the Project “almost guarantee[d] schedule delays and cost overruns during the actual process of constructing the project.”<sup>137</sup>

54. In fact, when discussing the need to expand the scope of the project, Mr. O’Connor admitted that the Company’s project management was not up to par. Mr. O’Connor testified, “I may have scheduled a more robust project management in advance of the increased scope. The need for additional project management was not clear to us in 2009 . . . .”<sup>138</sup> When asked to expand on that statement during the evidentiary hearing, Mr. O’Connor said that “he might have put more effort in the early conceptual designs.”<sup>139</sup>

55. “More effort” for the early conceptual designs would have reduced the total cost of the project. Mr. O’Connor testified during the evidentiary hearing that the Company decided to increase the scope of the four major modifications in 2007.<sup>140</sup> Mr. O’Connor also testified that some of the design work for those modifications had been done before the Company decided on an increased scope.<sup>141</sup> Performing design work before fully establishing the scope of the project led to inefficiencies; based on the scale of the scope additions Mr. O’Connor discussed, it is likely that some of the design work had to be redone or modified significantly after the Company decided to expand the scope.<sup>142</sup> For example, Mr. O’Connor indicated that the design for the condensate demineralizer, one of the major modifications, “spanned three years and required multiple iterations due to changes in project scope.”<sup>143</sup> The need to perform multiple iterations increased the cost of the Project. That cost, and likely other costs, could have been avoided if Xcel had put “more effort” into defining the Project scope.

56. The Company attributes the cost increase to “the fact that we substantially underestimated the complexity and difficulty of completing the installation work.”<sup>144</sup> But this excuse makes little sense because, as noted by Mr. Crisp, installation was the area where the Company and its contractors had the most control *and* the area where effective scoping and project management should have been able to control cost overruns.<sup>145</sup> Xcel’s failure to properly estimate the “complexity and difficulty” of the work is not a reasonable defense for the Company’s decision to proceed with a “preliminary” scope; it is a symptom of beginning the Project without sufficient preparatory work.

57. The Company also points to the “small footprint” of the plant as a challenge, including problems with spacing, clearances, access, and physical arrangements of the Plant. But, again, the “failure to recognize these conflicts is a direct failure of Project Management.”<sup>146</sup> The size

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<sup>137</sup> Ex. 300, at 8:3–5 (Crisp Direct).

<sup>138</sup> Ex. 3, at 63 (O’Connor Direct).

<sup>139</sup> Tr. Evid. Hearing, Volume 1, at 96:5–13 (Sept. 29, 2014) (O’Connor).

<sup>140</sup> *Id.* at 93:5–18 (O’Connor).

<sup>141</sup> *Id.* at 93:19 (O’Connor).

<sup>142</sup> *Id.* at 95:9–13 (O’Connor).

<sup>143</sup> Ex. 3, at 108 (O’Connor Direct).

<sup>144</sup> *Id.* at 34.

<sup>145</sup> Ex. 300, at 16 (Crisp Direct).

<sup>146</sup> *Id.* at 17.

of the plant, or any of the details of its current design, should not have contributed to any cost overruns because the Company should have had complete knowledge of the Plant. Xcel has been operating the plant for more than 40 years, and is obligated under NRC regulations to have full documentation of the design of the plant.<sup>147</sup> Nothing related to the characteristics of the plant, including its size, should have surprised the Company or led to cost overruns.

58. The Company also argues that the increased scope modifications were prudent and reasonable because all of the work was necessary to complete the EPU and would have to be performed regardless of when they were discovered.<sup>148</sup> This argument is misleading, because the question at hand is not whether the modifications needed to be completed; rather, the question that must be answered is whether the scope modifications could have been completed for less if the Company had identified them during the initial scoping of the Project. Based on the inefficiencies described above, expending enough “effort” to properly define the scope of the Project would have reduced Project costs: in the expert opinion of Mr. Crisp, “establishing the scope of the project before beginning the design and construction phases of the project would have resulted in lower costs.”<sup>149</sup> The Company’s failure to properly define the scope of the Project led to increased costs; those costs were not incurred prudently and recovering them from ratepayers would not be reasonable.

#### **4. Xcel’s Failure to Manage Contractors Led to Increased Costs.**

59. Xcel relied heavily on contractors to perform the work needed to complete the Monticello Project. In reviewing the record, it appears that Xcel relied on contractors for virtually every action taken to finish the project, other than the decision to start the project and hire contractors. Given Xcel’s dependence on contractors, it was important for Xcel to have a robust system in place to manage the contractors and ensure that work was performed efficiently. Xcel failed to do so.

60. Xcel initially retained General Electric (“GE”) to “prepare the license amendment request, and to engineer, design and procure the necessary components and modifications to implement” the Project.<sup>150</sup> Xcel did not, however, select GE because it determined that GE would be the best company for the job; rather, Xcel was forced to select GE because “GE was the original designer of Monticello” and “holds proprietary rights to aspects of the design basis at Monticello.”<sup>151</sup> As Xcel witness Mr. Stall noted, GE held enormous leverage over the Company as a result of those proprietary designs;<sup>152</sup> the contract with GE likely cost the Company, and ratepayers, more than it would have if there had been effective competition for the design work.

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<sup>147</sup> Ex. 300, at 18–19 (Crisp Direct).

<sup>148</sup> O’Connor Opening Statement, Ex. 407, at 4.

<sup>149</sup> Ex. 200, at 23 (Lindell Rebuttal); *see also* Ex. 300, at 8 (Crisp Direct) (noting that “initial scope definition and project planning appeared to contribute significantly to the cost overruns”).

<sup>150</sup> Ex. 3, at 46 (O’Connor Direct).

<sup>151</sup> *Id.* at 46–47.

<sup>152</sup> Tr. Evid. Hearing, Volume 2, at 74–75 (Sept. 30, 2014) (Stall).

61. It is also unclear exactly what work GE performed. GE did not do the design work, despite being retained as the “design contractor,”<sup>153</sup> because GE retained Shaw as subcontractor, to do the engineering and design of the LCM/EPU modifications.<sup>154</sup> GE also did not do any of the installation work, because GE’s contract did not include any provision to actually install any components of the Project. According to Mr. O’Connor, GE did not want to do the installation because it is not good at that kind of “stuff.”<sup>155</sup>

62. The work that GE and its subcontractors did do suffered because Xcel did not provide them with accurate information. For example, the Company discovered during the 2009 outage that the design drawings it had given to GE were “incorrect.”<sup>156</sup> Because GE and its subcontractors had based its designs on incorrect drawings, GE and the Company had to re-do the design plan during the outage. The Company also failed to provide GE with accurate information about the physical condition of the plant, such as the condition of the wiring and the receiving tanks in the condensate demineralizer.<sup>157</sup> Problems with the wiring and receiving tanks were discovered only after GE had begun its design work. If the Company had avoided these mistakes, GE and its subcontractors could have been more efficient and provided a superior design. More effective engagement and preparation from the Company could have led to better performance from all of its contractors.

63. Because GE would not do the installation work, Xcel sent out an RFP in 2007 to find a contractor to complete the installation.<sup>158</sup> Although GE had declined to contract for the work previously, it apparently changed its mind and responded to the RFP.<sup>159</sup> The only other response was from a consortium led by Day Zimmerman.<sup>160</sup> In late 2007, Xcel selected Day Zimmerman for “work planning and installation services.”<sup>161</sup> Unfortunately for Xcel, and for ratepayers, “Day Zimmerman’s performance . . . was not as strong as [Xcel] had hoped or expected.”<sup>162</sup> As a result, Xcel had to transfer some portion of Day Zimmerman’s responsibilities to itself and other contractors.<sup>163</sup>

64. Xcel was not done hiring contractors to try and get the Project back on track. In 2011, Xcel hired Bechtel Power Corporation to “provide comprehensive project management to ensure successful completion of the final LCM/EPU modifications.”<sup>164</sup> Given that Xcel had been actively pursuing the project since, at the latest, 2008, it seems relatively late in the process to be

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<sup>153</sup> Tr. Evid. Hearing, Volume 1, at 108:13–21 (Sept. 29, 2014) (O’Connor).

<sup>154</sup> Ex. 3, at 49 (O’Connor Direct).

<sup>155</sup> Tr. Evid. Hearing, Volume 1, at 107:15–23 (Sept. 29, 2014) (O’Connor).

<sup>156</sup> Ex. 3, at 39 (O’Connor Direct).

<sup>157</sup> *Id.*

<sup>158</sup> *Id.* at 49.

<sup>159</sup> *Id.* at 50.

<sup>160</sup> *Id.*

<sup>161</sup> *Id.*

<sup>162</sup> *Id.* at 75.

<sup>163</sup> Ex. 300, at 20 (Crisp Direct).

<sup>164</sup> Ex. 3, at 83 (O’Connor Direct).

seeking assistance with project management. Even with Bechtel, though, the 2013 outage went over budget.<sup>165</sup>

65. Xcel did not actually negotiate the agreements with all of these contractors itself. Xcel relied on yet another contractor, Nuclear Management Company (“NMC”), to actually enter into the contract with GE.<sup>166</sup> It is not clear from the record whether any Xcel employee actually participated in negotiating the GE contract. In fact, the NMC, rather than Xcel, was the “manager” of the entire Monticello Project.<sup>167</sup> Xcel witness Mr. Sieracki indicated that it was unusual to see a contractor used as a general manager in the nuclear industry, and that the typical procedure was to have a vice president from the utility act as the general manager of such a large construction project.<sup>168</sup> When the NMC dissolved half-way through the Monticello Project, Xcel was forced to take up the responsibility to manage the Project itself.<sup>169</sup> At that point, Xcel created a new vice president position, and named Al Williams general manager of the Monticello Project.<sup>170</sup> Given the fact that he was the “general manager” of the project, it is likely that Mr. Williams would have useful information about the Project, but, like Chief Nuclear Officer Mr. Koehl, Mr. Williams did not provide any testimony in this case and Xcel did not make him available to the Commission or other parties.<sup>171</sup>

66. The overlapping involvement of contractors led to increased costs for the Project. While there are many valid reasons to replace a contractor, “there are serious risk management issues that must be addressed by not only the Company but also the new contractor.”<sup>172</sup> For example, when Day Zimmerman’s responsibilities were passed to new contractors, those contractors could not assume that Day Zimmerman had performed admirably.<sup>173</sup> The new contractors must review a significant amount of work, or be “at extreme risk of liability claims throughout the life of the project.”<sup>174</sup> Xcel could have avoided the costs of redistributing Day Zimmerman’s responsibilities by applying a more rigorous selection process or providing better oversight.

67. Additionally, Xcel has not produced any evidence that it managed its contractors reasonably given all of the challenges it faced during the Project. Xcel did not provide any explanation in its written testimony; and when provided an opportunity to do so during the evidentiary hearing, Mr. O’Connor provided only vague descriptions of how the Company kept track of the many contractors working on the project. Mr. O’Connor indicated that the company

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<sup>165</sup> *Id.* at 84.

<sup>166</sup> The NMC had been retained by Xcel to operate the Monticello Plant. Tr. Evid. Hearing, Volume 2, 24 (Sept. 30, 2014) (Sieracki).

<sup>167</sup> Tr. Evid. Hearing, Volume 2, at 24 (Sept. 30, 2014) (Sieracki).

<sup>168</sup> *Id.* at 28 (Sieracki).

<sup>169</sup> *Id.* at 26 (Sieracki).

<sup>170</sup> *Id.* at 33 (Sieracki).

<sup>171</sup> *Id.*

<sup>172</sup> Ex. 300, at 21 (Crisp Direct).

<sup>173</sup> Especially since Day Zimmerman was replaced due to the quality of its work.

<sup>174</sup> Ex. 300, at 21 (Crisp Direct).



had legal oversight, operational oversight, project oversight, and oversight by engineering.<sup>175</sup> While Mr. O'Connor described several different groups that had "oversight" of contractors, Mr. O'Connor did not explain what those groups did to ensure the contractors performed well, or how Xcel came to have so many problems with its contractors given all of the "oversight" it had.

68. Xcel had numerous problems with the contractors who completed the Monticello project in addition to its internal management problems. GE was not provided enough information to do a good job in its design work; poor performance on the part of Day Zimmerman led to transferring the work to other contractors; and Xcel ultimately had to turn to yet another major contractor just to get the Project even close to being finished. As noted by Mr. Crisp, "[T]hese failures are indicators that something within the project management execution program was ill, and that does cause cost . . . increases."<sup>176</sup> Xcel's inability to properly manage its contractors led to increased costs due to inefficient work and considerable delays.<sup>177</sup>

## **5. The Ultimate Impact of Poor Management was Increased Costs.**

69. Xcel's decision to proceed on an aggressive, fast track schedule, and to use a parallel design/build process, was not prudent. It was especially unwise given the Company's decision to rely on "preliminary" scoping work, rather than putting in the time and effort necessary to have a thorough understanding of what needed to be done to finish the Project. Xcel's inability to determine the true scope of the project led to major scope modifications, which led to inefficiencies in both the design and installation process. All of this, combined with Xcel's failure to manage its contractors, led to dramatically increased project costs. These cost overruns were the direct result of Xcel's multifaceted, wide-ranging failure to properly manage the Monticello Project.

70. It is possible that the Company's decision to proceed with design and construction in parallel would not have been such a problem, except that the Company also decided to proceed on an aggressive, fast track schedule and failed to provide for an acceptable initial scope. The Company may have been able to better define the scope of the Project if the Board had not pushed a fast track schedule. It is also possible that the Company's poor scoping could have been controlled if the Company had hired competent contractors and managed them closely. Each of these problems independently contributed to cost overruns. But in combination, they reveal an interrelated web of mismanagement by Xcel.

71. Xcel knew that its management of the Project was unsound. In 2011, then-Chief Nuclear Officer Mr. Koehl directed his subordinates to document the "problems" that had occurred with the Monticello Project.<sup>178</sup> In that Cost History document, which was sent to four Company Vice Presidents and the CFO, Mr. Koehl's group indicated that problems began as early as the

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<sup>175</sup> Tr. Evid. Hearing, Volume 1, at 109:3-10 (Sept. 29, 2014) (O'Connor).

<sup>176</sup> Tr. Evid. Hearing, Volume 3, at 63:11-14 (Oct. 1, 2014) (Crisp).

<sup>177</sup> Ex. 300, at 22 (Crisp Direct).

<sup>178</sup> Tr. Evid. Hearing, Volume 3, at 65-66 (Oct. 1, 2014) (Crisp). The employee who prepared this document would, like Mr. Koehl, have been able to provide useful information to the Commission; unfortunately, he did not provide testimony in this case.

Board's initial decision to begin the project.<sup>179</sup> The Cost History indicated that the Company's initial cost estimate "had high uncertainty since little engineering was done on the design concepts suggested," and the "EPU project team position was that each project should have a more detailed review to define final scope and cost."<sup>180</sup> Instead, the Board approved a budget that was \$90 million below the EPU Project Team's recommendation.<sup>181</sup>

72. The Project Team recommended that the Project should be installed during the 2011 and 2013 outages, but the Board ignored that recommendation and ordered the Company to get the work done during the 2009 and 2011 outages.<sup>182</sup> The Board's decision meant that all of the work had to be done on a "fast track," which the Company was "not successful" in implementing.<sup>183</sup>

73. The Cost History document also indicated that the boots-on-the-ground from the EPU Project Team had little input in scoping the project and no ability to ensure that the scope included any detailed engineering.<sup>184</sup> When the Project Team did provide input, they were ignored; this led to "the need for the site to create many modifications around the base scope in the GE contract."<sup>185</sup> In order to work around the GE contract, the Company had to add "significant design engineering and project management resources beyond original project staffing."<sup>186</sup>

74. The boots-on-the-ground were also unable to "obtain scope change decisions that balanced scope and cost."<sup>187</sup> The most significant scope changes "did not appear to be approved by management in any detail."<sup>188</sup> When the scope had to be changed, it was done without "an appropriate consideration of cost" because of the fast-track schedule.<sup>189</sup> The "expected cost impact was not reviewed by appropriate management," even when the costs were large.<sup>190</sup> When management did give approval to increase the scope of the project, it was done "without the cost impact of the changes being known."<sup>191</sup> Those approvals ended up being very expensive, because "schedule restraints forced parallel work and required significant cost commitments to be made to achieve goals."<sup>192</sup> To make it even more difficult for regulators to determine whether the Company acted prudently, "projects did not have separate cost

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<sup>179</sup> Ex. 300, MCW-2 (Crisp Direct).

<sup>180</sup> *Id.* at 3.

<sup>181</sup> *Id.*

<sup>182</sup> *Id.*

<sup>183</sup> *Id.*

<sup>184</sup> *Id.*

<sup>185</sup> *Id.* at 3–4.

<sup>186</sup> *Id.* at 4.

<sup>187</sup> *Id.*

<sup>188</sup> *Id.*

<sup>189</sup> *Id.*

<sup>190</sup> *Id.* at 5.

<sup>191</sup> *Id.*

<sup>192</sup> *Id.*

tracking.”<sup>193</sup> The Company’s review process was “insufficient to allow early identification of cost issues,” and this resulted in “a challenge to project managers to be able to control and forecast cost.”<sup>194</sup>

75. Xcel badly mismanaged the scoping, design, and implementation of the Monticello Project. As a result, the costs of the project skyrocketed nearly 135 percent above the Company’s initial estimate. Xcel’s poor management has resulted in approximately \$428.1 million in cost overruns, which Xcel now expects to recover from its captive customers. Minnesota ratepayers deserve better. They deserve the opportunity to be served by a utility that can effectively manage its construction projects and provide utility service at a reasonable cost. And when the utility fails to act prudently, Minnesota ratepayers should not be expected to shoulder the burden of unreasonable costs.

## V. RECOMMENDATION OF THE ALJ

76. Xcel “did a poor job with initial scoping, project management, contractor selection, and, essentially every aspect that would contribute to proper management of the Monticello Project.”<sup>195</sup> Xcel’s management “was not in keeping with . . . industry standards, and . . . as a result of that, there were increased costs incurred.”<sup>196</sup> Xcel now expects ratepayers to pay for cost overruns that could have been avoided if Xcel had managed the project well: if Xcel’s projected management had been acceptable, Mr. Crisp testified that there was “every probability that it could have been completed for less money.”<sup>197</sup> Any cost overruns caused by Xcel’s mismanagement were imprudent and unreasonable, and should not be collected from ratepayers. In order to protect the interests of ratepayers, the Commission should disallow all costs that are the result of Xcel’s poor management.

77. Due to the nature of Xcel’s management failure, there is some uncertainty about the exact amount of cost overruns that were caused by poor management. But as the Commission stated in Xcel’s 2008 rate case, “[U]ncertainty about how much the ratepayers are being overcharged . . . does not trump the Commission’s duty to do something about it.”<sup>198</sup> The burden of proof in this case lies with the Company, and *only* with the Company.<sup>199</sup> As a result, it is not the responsibility of the OAG, or the Department, or any other party, to identify specific unreasonable costs. Once the OAG, the Department, or any other parties demonstrate that the Company’s request would result in overcharging ratepayers, the Company’s proposal is no

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<sup>193</sup> *Id.* at 5.

<sup>194</sup> *Id.*

<sup>195</sup> Ex. 200, at 18 (Lindell Rebuttal).

<sup>196</sup> Tr. Evid. Hearing, Volume 3, at 60:13–18 (Oct. 1, 2014) (Crisp).

<sup>197</sup> *Id.* at 60:24–25 (Crisp).

<sup>198</sup> See *In the Matter of the Application of Northern States Power Company d/b/a Xcel Energy for Authority to Increase Rates for Electric Service in Minnesota*, Docket No. E-002/GR-08-1065, at 21 (Oct. 23, 2009).

<sup>199</sup> Minn. Stat. § 216B.16, subd. 4; see also Minn. Stat. § 216B.03; *In the Matter of the Petition of Northern States Power Company for Authority to Change its Schedule of Rates for Electric Service in Minnesota*, 416 N.W.2d 719, 725 (Minn. 1987) (noting that the Company “had at all times the burden of proving the proposed rate change”).

longer “an acceptable alternative.”<sup>200</sup> And to the extent that there is any doubt about the reasonableness of a proposed remedy, Minnesota law requires the Commission to decide the issue in favor of ratepayers.<sup>201</sup>

78. The ALJ agrees with the OAG that the Commission should disallow all cost overruns that were the result of Xcel’s poor management.<sup>202</sup> The analysis of the OAG and the Department’s consultants demonstrates that at least four specifically identifiable costs were the result of Xcel’s poor management.

79. First, Xcel’s installation costs escalated from an estimated cost of \$27.5 million to a final cost of \$288.6 million, “an increase of more than ten times the original estimate.”<sup>203</sup> There is no justifiable reason that the Company was unable to properly understand what it would take to install modifications in a plant that it had been operating for more than 40 years. The installation cost overruns were the result of Xcel’s failure to properly scope, design, and manage the project.<sup>204</sup> As a result, the costs were imprudent,<sup>205</sup> and should be denied.

80. Second, the cost of the 13.8 kV electric distribution system escalated from \$20.9 million to \$119.5 million. According to Department witness Dr. Jacobs, “There is no reasonable basis for Xcel incurring a 5-fold increase in costs of a distribution system in the Company’s own generation plant.”<sup>206</sup> Dr. Jacobs, an expert in nuclear engineering, testified that this cost increase was not reasonable,<sup>207</sup> and it should be disallowed.

81. Third, the costs for the feedwater heater increased from an estimated \$37 million to \$114.9 million. Xcel argued that this cost increase was reasonable because “the feedwater heater would not fit into the room it was intended to be located in.”<sup>208</sup> Department witness Mr. Crisp testified that Xcel should have known that the feedwater heater would not fit in its designated location, and that cost overruns on that basis were not reasonable.<sup>209</sup> Mr. Crisp’s conclusion is also supported by common sense: Xcel should know the lay-out of its own nuclear plant well enough to determine if a piece of equipment will fit. The cost overruns for the feedwater heater, the 13.8 kV distribution system, and the installation costs total at least \$261.1 million, given that

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<sup>200</sup> See *In the Matter of the Application of Northern States Power Company d/b/a Xcel Energy for Authority to Increase Rates for Electric Service in Minnesota*, Docket No. E-002/GR-08-1065, at 21 (Oct. 23, 2009).

<sup>201</sup> Minn. Stat § 216B.03.

<sup>202</sup> As discussed above, the record in this case demonstrates that Xcel has not met its burden to prove that *any* of the cost overruns were incurred prudently or that it would be reasonable to recover them from ratepayers. On that basis, the Commission could justifiably deny recovery of *all* cost overruns. At minimum, the Commission should deny all of the costs that the record indicates were directly caused by Xcel’s poor management, regardless of Xcel’s failure to meet the burden of proof.

<sup>203</sup> Ex. 304, at 16 (Jacobs Direct).

<sup>204</sup> Ex. 305, at 13–17 (Jacobs Direct).

<sup>205</sup> Ex. 200, at 28 (Lindell Rebuttal).

<sup>206</sup> Ex. 305, at 16 (Jacobs Direct).

<sup>207</sup> Tr. Evid. Hearing, Volume 4, at 60:9–15 (Oct. 1, 2014) (Jacobs).

<sup>208</sup> Ex. 200, at 15 (Lindell Rebuttal).

<sup>209</sup> Ex. 300, at 19 (Crisp Direct).

some costs from the 13.8 kV system and the feedwater heater overlap with the installation costs. These costs can be specifically identified as being caused by Xcel's poor management; as a result, they are unreasonable and should be denied.

82. Fourth, Mr. O'Connor's rebuttal testimony identified significant costs that were the result of the Company's poor design and scoping work. The Company measured \$25 to \$30 million in expenses for field changes; \$13 million for duplicative design; and \$11 million for abandoned work. Some of these costs would have been avoidable if the Company had acted prudently in preparing its design and scoping. It is difficult to measure the total amount of avoidable costs because Mr. O'Connor claimed, unreasonably, that only \$1 million in field changes were avoidable. But it is clear that expenses for duplicative designs and abandoned costs could have been reduced with proper design and scoping. The OAG recommends that the Commission disallow 50 percent of the duplicative design and abandoned costs, as well as 25 percent of the expenses for field changes, for a total disallowance of \$19.5 million.

83. In addition to the items that can be specifically identified as unreasonable, the record clearly establishes that a significant portion of the additional cost overruns were the result of Xcel's poor management. Because of Xcel's poor accounting practices,<sup>210</sup> the expert consultants retained by the Department were unable to determine the exact amount of costs that were attributable to the poor management.<sup>211</sup> The cost overruns that were specifically identified above make up at least 65.5 percent of the total cost overruns of \$428.1 million. The record establishes that additional costs were caused by Xcel's mismanagement, but cannot be identified due to Xcel's unreasonable accounting practices. Because this uncertainty is caused in part by Xcel's unreasonable accounting, the OAG recommends that the Commission apply a percentage based proxy to determine which costs were caused by poor management. Based on the vast amount of evidence indicating that the cost overruns were the result of Xcel's poor management, there is evidentiary support for denying at least 75 percent of the cost overruns.

84. Denying at least 75 percent of the cost overruns is reasonable given the difficulty with directly tying cost overruns to mismanagement. The Commission's precedent establishes that uncertainty over the amount of overcharges to ratepayers is not an acceptable reason to ignore unreasonable costs that are identified by public agencies or other parties.<sup>212</sup>

85. Mr. Sparby claims that the disallowance proposed by the Department, and presumably the larger disallowance recommended by the OAG, was inappropriate because it could impact "the financial health of the utility," and, likely, the value of Mr. Sparby's shares of Xcel stock.<sup>213</sup> When the Department asked Mr. Sparby to provide the justification for his "concerns," however, it became clear that Mr. Sparby had no basis for his statements.<sup>214</sup> Mr. Sparby's

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<sup>210</sup> Ex. 313, at 34 (Campbell Direct).

<sup>211</sup> Ex. 200, at 29 (Lindell Rebuttal).

<sup>212</sup> See *In the Matter of the Application of Northern States Power Company d/b/a Xcel Energy for Authority to Increase Rates for Electric Service in Minnesota*, Docket No. E-002/GR-08-1065, at 21 (Oct. 23, 2009).

<sup>213</sup> Ex. 12, at 33-34 (Sparby Rebuttal).

<sup>214</sup> See Ex. 315, at 34-35 (Campbell Surrebuttal).

statements are also baseless because Xcel's annual operating revenues were more than \$4.5 billion in 2013;<sup>215</sup> the operating revenues of Xcel's parent company were more than \$10 billion in 2013.<sup>216</sup> While the Company would obviously prefer that the Commission grant it full recovery of the Monticello cost overruns, the OAG's recommendation would result in no material effect on the overall financial health of the utility. It will, however, make clear to the utility that the Commission will continue to hold the utility accountable for its prudence and the reasonableness of its expenses. This is a reasonable expectation for a utility and the operator of the nuclear power plant at issue in this case.

86. In addition to disallowing those specific costs that were caused by Xcel's poor management, the ALJ agrees with the OAG, XLI, and the Department that the Commission should deny a return on any cost overruns that are allowed. Xcel knew even before it filed the original CON that its projections underestimated the total cost of the Project.<sup>217</sup> As discussed by Department witness Ms. Campbell, from that point on, Xcel failed to inform the Commission and other parties about the magnitude of the cost overruns in a timely fashion; furthermore, when Xcel did raise the issue it chose not to provide full information about the cost overruns.<sup>218</sup> These concerns, compounded with Xcel's gross mismanagement of the Monticello Project, indicate that Xcel should not be allowed to earn a return on any cost overruns in excess of its original estimate.

87. Denying a return on the cost overruns is sound public policy. Utilities earn a significant portion of their profit margin from returns on investments like the Monticello Project. Because that return is a guaranteed rate, utilities have every incentive to invest to the maximum possible extent. In this instance, the interests of utilities are not aligned with the public interests. Ratepayers want to receive reliable electric service for the lowest possible cost; utilities like Xcel, however, want to provide electric service at the highest level of investment that they can justify to the Commission. Xcel has little incentive to invest in the management necessary to keep cost overruns to a minimum because, due to the byzantine nature of a project like Monticello, it can be very difficult for regulators to determine whether costs are prudent and reasonable. As noted by Mr. Lindell:

If utilities can earn a return on significant cost overruns, especially when their accounting methods make it difficult or impossible to track whether individual expenses were reasonable, then utilities will have an incentive to incur additional cost overruns in order to

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<sup>215</sup> This information is available in Northern States Power Company's most recent 10-K, which is publicly available on the Company's website. The relevant portions of the 10-K are attached as Attachment B.

<sup>216</sup> This information is also available in Xcel Energy's most recent 10-K, which is also publicly available on the Company's website in the form of the Annual Report. The Annual Report was also provided as Volume III, Part 7.A of the Required Information in Xcel's pending rate case, Docket No. E-002/13-868. The relevant portion of Xcel Energy's 10-K is attached as Attachment C.

<sup>217</sup> See Ex. 200, MWC-2.

<sup>218</sup> Ex. 313, at 11-12 (Campbell Direct).

increase additions to rate base and recover greater returns. This is not acceptable.<sup>219</sup>

88. Further, both the Department and OAG’s witnesses recognized that “granting a return on the cost overruns would also undercut the purpose of a CON docket.”<sup>220</sup> Regularly awarding a return on cost overruns will not incentivize utilities to provide accurate estimates during CON proceedings; instead, it will give utilities an incentive to produce only the information that will allow the utility to proceed with the most financially rewarding investment for the utility. This problem cannot be understated; “it is very important that the Commission is presented with accurate estimates in CON dockets because the Commission relies on the estimates to make important decisions to incur costs for recovery from ratepayers.”<sup>221</sup>

89. Other parties in this case, including the Department and XLI, have discussed the eliminating or reducing the Company’s return on the cost overruns.<sup>222</sup> In fact, the Company also discussed such an adjustment in the surrebuttal testimony of Mr. Alders.<sup>223</sup> The Commission should deny a return on the cost overruns as discussed by the OAG and the Department. Granting a return on cost overruns would allow the Company to profit on costs that resulted from poor management and imprudence; such an arrangement would be unsound public policy and would result in unreasonable costs for ratepayers.

## RECOMMENDATIONS

The ALJ recommends that the Commission issue an Order providing that:

1. 75 percent of the cost overruns of the Monticello Project are disallowed.
2. Xcel is allowed no return on the remaining cost overruns.
3. Within ten days of the service date of this Report, Xcel shall file with the Commission for its review and approval, and serve on all parties in this proceeding, revised schedules of rates and charges reflecting the revenue requirements and the rate design decisions based on the recommendations made herein.

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<sup>219</sup> Ex. 200, at 27 (Lindell Rebuttal).

<sup>220</sup> *Id.*; see also Ex. 309, at 12–13 (Shaw Direct).

<sup>221</sup> Ex. 200, at 27–28 (Lindell Rebuttal).

<sup>222</sup> Ex. 313, at 37–38 (Campbell Surrebuttal).

<sup>223</sup> Ex. 15, at 26 (Alders Surrebuttal).

4. Xcel shall make further compliance filings regarding rates and charges, rate design decisions, and tariff language as ordered by the Commission.

Dated: November 21, 2014

Respectfully submitted,

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